



WEEKLY ECONOMIC DIGEST

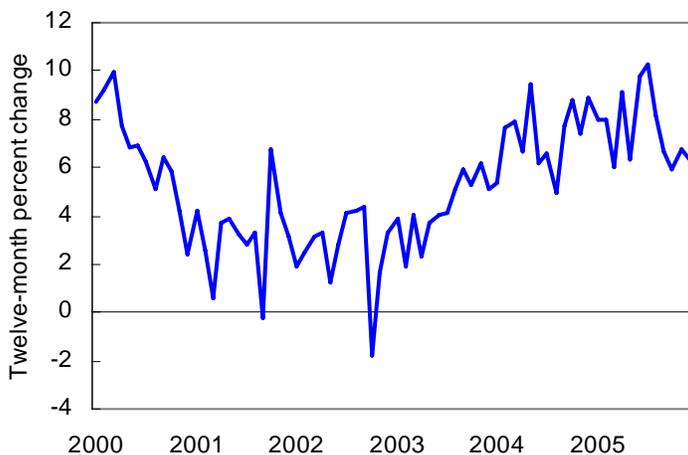


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

January 18, 2006

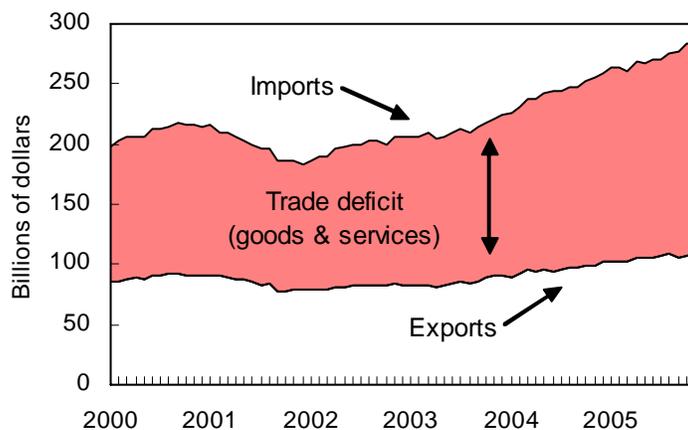
Sales and Production Data Provide a Mixed Picture

Retail and Food Service Sales



Source: Census Bureau, U.S. Department of Commerce.

U.S. International Trade in Goods and Services



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

- **Strong automotive sales boosted retail sales in December.** Sales at retail establishments and food services rose by 0.7 percent last month, to a level that was 6.4 percent above a year earlier (see top chart). That growth reflected a 2.6 percent rise in sales at motor vehicle and parts dealerships, which continued to rebound from declines in the fall, and a 0.9 percent rise in retail gasoline sales. However, non-automotive sales grew by only 0.1 percent in December, with a wide range of retailers reporting weak or declining sales.
- **Manufacturing production slowed last month.** Industrial production in manufacturing, mining, and utilities grew by 0.6 percent last month, just below the 0.8 percent gain posted in November. Mining output (which includes oil and gas) continued to recover from the hurricane-related setbacks in the autumn. Utilities also posted a solid gain of 2.7 percent. Factory production slowed, however, increasing by only 0.2 percent following a 0.4 percent rise in November.
- **The trade deficit narrowed in November but remains large.** The deficit for international trade in goods and services fell by \$3.9 billion to \$64.2 billion in November (see bottom chart). Exports rose by \$1.9 billion while imports fell by \$2.0 billion, leaving exports 10.8 percent higher than they were a year earlier and imports 10.1 percent higher. With the trade deficit as large as it is, however, exports would have to grow substantially faster than imports over a sustained period to reduce the gap significantly.
- **Forecasters see a fourth-quarter lull in growth.** The economy, which grew at a 4.1 percent annual rate in the third quarter, probably slowed to a 3.1 percent rate in the fourth, according to the *Blue Chip Consensus*, an average of more than fifty forecasts. However, forecasters expect growth to pick up again in the first quarter of 2006.

The Economy at a Glance	Dec	Nov	Oct	Sep	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	n.a.	4.1	3.3	3.8	n.a.	4.2
Industrial Production (% growth)	7.4	10.0	12.7	-14.5	3.8	1.4	1.6	3.8	3.2	4.1
Capacity Utilization (level, %)	80.7	80.3	79.8	79.1	80.2	79.8	79.9	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.9	5.0	4.9	5.1	5.0	5.0	5.1	5.2	5.1	5.5
Housing Starts (thousands)*	n.a.	2123	2017	2160	n.a.	2101	2044	2083	n.a.	1950
Real Disposable Personal Income (% growth)	n.a.	8.8	3.9	32.9	n.a.	-2.0	0.2	1.0 [#]	n.a.	3.1 [#]
Retail Sales (% growth)	8.6	10.1	2.6	3.7	2.3	6.9	10.8	5.6	7.6	7.3
Personal Saving Rate (level, %)	n.a.	-0.2	-0.2	-0.5	n.a.	-1.8	-0.2	0.5	n.a.	1.5 [#]
Inflation & Productivity										
CPI-U Inflation, all items (% growth)*	n.a.	-7.0	2.4	15.4	n.a.	5.1	4.2	2.4	n.a.	2.7
Core CPI-U Inflation (% growth)*	n.a.	2.4	2.4	1.2	n.a.	1.5	2.0	2.6	n.a.	1.8
Employment Cost Index (% growth)	—	—	—	—	n.a.	3.2	2.8	2.8	n.a.	3.9
Output per Hour (% growth)	—	—	—	—	n.a.	4.7	2.1	3.2	n.a.	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	3.89	3.88	3.71	3.42	3.83	3.36	2.86	2.54	3.15	1.37
T-note Rate, 10-years (level, %)	4.47	4.54	4.46	4.20	4.49	4.21	4.16	4.30	4.29	4.27
Federal Funds Rate (level, %)	4.16	4.00	3.78	3.62	3.98	3.46	2.94	2.47	3.22	1.35
Dow Jones Industrial Avg (index level)	10828	10695	10324	10533	10616	10544	10382	10648	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **Consumer Price Index: December 2005** [Release: Wednesday, January 18]
- **Real Earnings: December 2005** [Release: Wednesday, January 18]
- **New Residential Construction: December 2005** [Release: Thursday, January 19]
- **Usual Weekly Earnings of Wage and Salary Workers: Fourth Quarter 2005** [Release: Thursday, January 19]